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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE month of April has continued, on the whole, the good record for business made during the first quarter. Seasonal trade has been greatly handicapped by the late Spring in practically all sections of the country, and the stock market decline has had a sobering effect, but real Spring weather would undoubtedly work wonders in the way of stimulating commodity buying. Moreover, while the readjustment in the stock market continued during most of the month, it was more orderly in character, and has been followed lately by a rally on evidences of easing money conditions, so that trade has had less to contend with from that quarter. Business was considerably startled by the severity of the first market reaction, but after the early weakness has been more inclined to disassociate market movements from trade. There is no reason why the correction of a condition of over-speculation in securities should necessitate a drastic readjustment in business, though it would be a mistake to regard so extensive a decline in stocks as has taken place as without implications regarding the business situation. The volume of trade and manufacturing has been maintained at high levels for an unusually long period, and while it might continue so indefinitely without over-production could the balance be maintained between the various branches of industry, signs are not lacking that some lines may have gone ahead a little too fast. Read aright, the market's action indicates that expectations were pitched too high. We have now, however, come down to a more normal pace, and one that gives greater assurance of the continuance of stability.

On every hand the familiar statistics give unquestioned evidence that the level of industry and trade is still high. The volume of checks cashed at banks covers all sorts of business transactions, and is therefore about as good a measure of business volume as can be had. The following table comparing the average daily debits for the months this year with the previous year for 140 principal cities excluding New York where the figures are affected too much by security market activity, shows up to April some evidence of slackening in the rate of business expansion, but indicates that the volume has been maintained at all times at levels well above those of 1925. Moreover, the figures reported for the first three weeks of April appear to indicate at least a temporary check to the downward tendency registered in the preceding months.

	1925	1926	Per Cent Increase
January	856,813,000	943,281,000	10.1
February	844,154,000	912,714,000	8.1
March	816,108,000	867,854,000	6.3
April 1-21	804,300,000	880,400,000	9.5

Railway car loading continues to run above all previous years, the gains as compared with 1925 being in coal, grain and grain products, merchandise and less-than-carload-lot freight, and coke, as against losses in loadings of livestock, forest products, ore, and miscellaneous freight. The repeated attainment of new high records in the movement of less-than-carload-lot freight appears in part as another reflection of the current tendency of merchants to order in small amounts but at frequent intervals. With the railroads constantly making new efficiency records, and with the number of surplus freight cars in good repair and immediately available for service on April 15 amounting to 284,396, it is evident that business need have no fears as to the ability of the transportation system to measure up to any demands likely to be put upon it. Following is a comparative table of car loadings for the first fifteen weeks of the past three years.

	1924	1925	1926
Five weeks in January..	4,294,270	4,456,949	4,432,010
Four weeks in February	3,631,819	3,623,047	3,676,449
Four weeks in March....	3,661,922	3,702,413	3,877,139
Week ended April 3........	861,990	923,400	928,092
Week ended April 10....	880,937	918,400	929,506
Week ended April 17....	876,916	923,844	964,935
TOTAL........................	14,207,854	14,548,053	14,808,131

Factory employment is at high levels throughout the country, and as indoor labor requirements are supplemented by demands from outdoor industries some predictions of labor shortage are being heard. A tremendous

amount of construction work of all kinds is in sight and demand for farm labor is also increasing.

Consumption of electric power showed marked improvement in March over both January and February and was 14 per cent above the 1923-25 average.

The American Machinist reports good prospects in the machine tools trade, which likewise responds to increased manufacturing activity, and consumption of industrial chemicals continues at high levels.

In the field of consumer distribution, retail trade generally has been held back by the weather, and this has affected the apparel and shoe industries, but sales of mail order houses and chain stores have continued to expand rapidly, and the record of life insurance business during the first quarter is described as the most extraordinary in the history of the business.

Building and Manufacturing

Calling the roll of some of the major industries, doubtless the most striking of recent developments was the piling up in the latter part of March of sufficient new building contracts to bring the total awards for the month, according to the F. W. Dodge Corporation, to $597,879,300, a new high record for March and one 22 per cent larger than the total for March a year ago. Thus the date for the abatement of building operations, so often heralded, is once more postponed indefinitely. While analysis of the detailed figures may perhaps provide some ground for argument for those who believe the turn in building is not far ahead, it is noteworthy that not even the most pessimistic has ventured to predict a building total for the year much below that of last year.

In the steel industry the production of steel ingots in March amounting to 4,491,689 tons set a new high record, 284,990 tons above the previous high mark of March, 1924. Seldom has the steel industry experienced so long a period of sustained operations as in the past few months, and the absence of any signs of accumulated stocks is striking testimony of the high level of consumption. Unfilled orders of the Steel Corporation, however, at the end of March were down an additional 236,887 tons, indicating a tendency for production to run ahead of new orders, so that with the further moderate slackening of buying that has occurred during April production for the month is expected to show some decrease. Striking evidence of the unusual conditions in the industry appear in the comparison of present production and unfilled orders with those of March 1920. With production now running at the highest rate in history, unfilled orders of the Steel Corporation amounting to 4,379,935 tons are less than half those reported at the former period.

In the textile industries, cotton consumption was unusually heavy in March, reaching a new high record for the month of 634,593 bales, but the talk in the trade continues pessimistic. Some suggestions have been made that the heavy consumption reflects, in part, the use of low grade cotton which involves a large amount of waste as active spindleage has increased less than the heavier consumption would seem to warrant. Woolens are also dull, and silks appear to be suffering from the combined effects of the weather and of having gone ahead too fast in recent months.

Automobiles

Along with building, the automobile industry continues to confound the forecasters by establishing new high records both as to production and sales. For March the output of passenger cars aggregated 379,769 or 19 per cent ahead of March a year ago, while output for the first quarter rolled up a total 27 per cent above the first quarter of last year. Truck production was also in unprecedented volume. Following are figures comparing passenger car and truck production for the first quarter of 1924, 1925, and 1926.

	Passenger Cars			Trucks		
	1924	1925	1926	1924	1925	1926
Jan.	283,983	204,620	272,011	28,994	26,582	29,651
Feb.	331,388	242,024	318,632	31,231	32,719	37,522
Mar.	341,851	319,140	379,769	34,404	43,012	47,788
Total	957,222	765,784	970,412	94,629	102,313	114,961

Taking the quarter as whole, passenger car production has run ahead of sales, but though stocks increased considerably in anticipation of the seasonal demand they are not regarded in the trade as dangerously high. Despite the handicap of bad weather, sales have held up remarkably well, most companies doing better than a year ago, and some even bettering their records for any quarter. By and large the industry appears to have made an excellent start on the year.

There is more difference of opinion with regard to business in the second half of the year. That it will show a seasonal decline is pretty generally expected, and the question is rather to how great an extent is any decline likely to exceed the seasonal. This of course cannot be foretold with any precision, but it is worth noting that should the next three-quarters of the year repeat the gains in production over 1925 recorded in the first quarter the total output of passenger cars for the year would reach nearly 4½ millions, or considerably more than the production of any previous year. That any such total will actually be recorded seems extremely unlikely for reasons suggested by figures in the table following.

	PASSENGER CARS			TRUCKS		
	Production	Exports	Production Less Exports	Production	Exports	Production Less Exports
1913	461,500	25,880	435,620	23,500	1,009	22,491
1914	543,679	22,335	521,344	25,375	3,430	21,945
1915	818,618	41,864	776,754	74,009	22,094	51,906
1916	1,525,578	61,922	1,463,656	92,130	18,921	73,209
1917	1,740,792	65,756	1,675,036	128,157	14,479	113,678
1918	926,388	36,936	889,452	227,250	10,308	216,942
1919	1,657,652	67,145	1,590,507	316,364	15,585	300,779
1920	1,799,522	142,508	1,657,014	311,531	29,136	282,395
1921	1,452,902	30,950	1,421,952	142,402	7,480	134,922
1922	2,313,558	66,791	2,246,767	244,499	11,443	233,056
1923	3,563,785	127,035	3,436,750	374,421	24,859	349,562
1924	3,144,999	151,380	2,993,619	359,863	27,352	332,511
1925	3,678,328	244,300	3,434,028	475,029	58,624	416,405

This table shows the growth of the automobile industry since 1913, and indicates that up to 1923 the industry was expanding rapidly, but that since that year the amount of cars produced and sold annually has shown little increase, the total output for 1925 being only about 100,000 cars above that for 1923. Moreover, it is interesting to note that of this small increase in production over 1923, the whole of it was due to an increase in export sales, as the number of cars produced for domestic consumption, was, as shown in column 4 of the table, actually smaller in 1925 than in 1923. When it is considered further that 1925 was a year of great prosperity, and therefore favorable to high automobile sales, and the industry had the benefit of the growing popularity of the closed car, radical changes in design such as the introduction of balloon tires and four-wheel brakes, and the advantage of a great expansion in the use of instalment credit, the failure to appreciably increase volume over previous years, seems to suggest that automobile production may have reached that stage in the development of every youthful industry where the high rate of expansion of the earlier years can no longer be expected.

Certainly it appears true that with the industry equipped to produce 5 to 5½ million passenger cars annually, the business is becoming more highly competitive, and increases in the volume of one company are more likely to be at the expense of that of another company. Some evidence of this has already been noted, particularly this spring, when a number of the companies have done extremely well, partly, however, through the expedient of cutting into another's field. This does not imply any pessimism as to the outlook for the industry in general. The automobile, on the whole, has passed the stage of being merely a luxury. It has become a necessity which has worked itself inextricably into our business and social system, and there is no question as to the future of those companies which are able to supply the kind of a car the public wants. Always the automobile manufacturer has the advantage of the fact that his product is more or less of a specialty in that one make is not always readily substituted for another as in the case of staple articles, so that over-production for the industry as a whole may not mean over-production for the individual company. Moreover, improvements in the quality of the product are taking place so rapidly that cars rapidly become obsolete and demand for new output is stimulated. Despite the present high level of development, it is certain that the automobile is still nowhere near finality of design, or technical efficiency.

Commodity Prices

One of the unusual features of the present business situation and one that has occasioned frequent comment has been the downward trend of commodity prices in the face of exceptionally high business activity. The Department of Labor's wholesale price index covering 404 individual commodities or price series has been declining steadily since last August, and in March dropped 2¼ per cent to 152 per cent of the 1913 average, and 9 points below the level of a year ago. The following table shows the percentage changes in the various groups of the index over the year's period.

Month of March	1925	1926	Per Cent of Change
Farm Products	161.3	144.0	—10.7
Foods	158.9	151.4	— 4.7
Clothing Materials	190.7	180.5	— 5.3
Fuels	174.4	175.1	+ .4
Metals and metal products	133.7	127.7	— 4.5
Building Materials	179.8	175.5	— 2.4
Chemicals and Drugs	134.2	131.6	— 1.9
House-furnishing goods	170.1	163.9	— 3.6
Miscellaneous	125.4	128.3	+ 2.3
All Commodities	161.0	151.5	— 5.9

Changes in the combined index have largely reflected the lower levels at which farm products and foods are being marketed. Lower prices for cotton, wool, and silk are reflected in a substantial decline in the cloths and clothing group. Other groups were also generally lower, with the exception of fuel and lighting and miscellaneous articles.

Doubtless we may have a further easing of prices, as business seems more likely to abate somewhat than to increase in volume, but there

seems little likelihood of any price decline of marked severity. We have had no inflation of wholesale prices such as would require correction, and stocks of goods generally speaking do not appear such as to warrant fears of any protracted slump in buying. In part the decreases appear to be the result of larger supplies of raw materials, increased efficiency in industry, and the general downward trend of world prices which affects prices here through competition with our goods abroad and in this market.

Foreign Trade

Foreign trade of the United States for March revealed another surplus of imports amounting to $70,000,000, making the net surplus of incoming merchandise for the quarter $125,000,000. The persistence of the import surplus was due to a rise in imports of $56,000,000 above the figures for February, and of $60,000,000 above March, 1925, while exports increased only $22,000,000 over February and were $79,000,000 below March a year ago.

While full details on trade for the month are not yet available apparently the major causes that operated to bring about the foregoing results were on the export side, the shrinkage in meat and grain exports, the decline in the latter case being due partly to the short crop, and the decrease in cotton shipments resulting from depression in the textile industry abroad. As regards imports, rubber continues to be the chief factor in the increase.

Doubtless the later months of the year when seasonal movements of agricultural products get under way will swing back the trade balance to a surplus of exports, but that the net accounting for the year will reveal a considerable reduction in the total export surplus from the figure of $681,000,000 recorded last year now seems certain. It is true that, on the side of imports, rubber is still coming in at the high prices contracted for some time ago, and after these supplies are worked off the figures may show some reduction. Until European conditions register further improvement, however, there seems little prospect of greatly increased shipments of meats and cotton and these are large factors in the trade balance on the export side. The heavy winter wheat crop coming along from the Southwest may correct the low grain movement, but whether the price will be satisfactory or not depends upon the crops in other parts of the world. With European purchasing power still reduced, it is apparent that she will get along with as little from us as possible, and that if we are to do business with her we will have to keep our price level down.

The accompanying tabulation of imports and exports by classes reflects the movements just described. Both for March and for the nine months, the decrease in exports has been largely in the crude materials and foodstuffs groups, and most of the increase in imports has been in crude materials to be used in our manufactures. It is noteworthy that insofar as finished manufactures are concerned, we appear to be holding our own against foreign competition. Exports of finished manufactures during the nine months showed an increase of nearly 20 per cent over the corresponding period of a year ago, a gain, according to the Department of Commerce, due particularly to larger foreign sales of automobiles, machinery, iron and steel, and chemicals. For the same period imports of manufactures increased only 7 per cent.

(In millions of dollars)

	Domestic Exports				Total Imports			
	Month of March		9 mos. ending March		Month of March		9 mos. ending March	
	1925	1926	1925	1926	1925	1926	1925	1926
Crude materials	123	83	1,199	1,090	145	198	1,047	1,491
Crude foodstuffs and food animals	31	16	391	189	50	51	345	404
Manufactured foodstuffs	56	41	454	424	47	40	325	293
Semi manufactures	65	54	472	472	76	75	526	598
Finished manufactures	172	172	1,193	1,423	68	79	582	625
TOTAL	447	366	3,709	3,598	386	443	2,825	3,411

Agricultural Conditions

The outstanding feature of the agricultural situation, and one that promises well for the Southwest, is the excellent outlook for the winter wheat crop. At 84.1 per cent of normal on April 1, the condition of the crop was reported by the Department of Agriculture as the highest for any year on that date since 1921, and nearly 5 per cent above the average condition of the past ten years on April 1. While winter wheat yield constitutes the largest single factor in the world crop, the effect of increased estimates here was offset by a very substantial reduction in the estimates for the Argentine crop. With United States visible supplies only 29,000,000 bushels as against 53,000,000 bushels at this time last year, and with world requirements for the balance of the crop year, according to Broomhall, 240,000,000 bushels against a theoretical available supply of 208,000,000, the statistical position has been improved and prices have tended firmer during the month, closing on April 30, at $1.63½ for May, $1.43 for July, and $1.37 for

September, up 5 to 8½ cents since the end of March.

Corn prices, on the other hand, showed little net change for the month. The number of cattle on feed in the corn belt states is practically the same as a year ago, and the number of hogs about 3 per cent more, as compared with a supply of corn which has about doubled. Owing, however, to the greater profit in feeding to live stock, the country is not selling heavily and receipts of both corn and oats since November 1 have run behind those of a year ago.

Of the three main feed grains,—corn, oats, and barley,—the reported intention is to plant 157½ million acres against 155 million last year, the contemplated increases being in oats and barley, with the corn acreage remaining the same. On the basis of these plans, the Department of Agriculture points out that with average yields the production of feed crops may be larger than can be disposed of with available livestock. In general, however, the Department concludes that the outlook for 1926 indicates that the slight changes contemplated by farmers are in accord with the prospect that there is little likelihood of a material increase in the demand for farm products in either domestic or foreign markets.

Livestock in general came through the winter in good shape, and with less feeding than usual owing to the mild weather. Hogs continue to come to market showing the effect of heavy feeding, and have lately brought prices close to the highest of the year. Fat cattle, on the other hand, reached lowest prices of the season during April, reflecting liberal receipts and only indifferent demand for beef. Spring movement of cattle from Texas to Kansas and Oklahoma grass has been under way, and is expected to show up considerably larger than last year.

Progress in the planting of cotton continues to be held back by the weather, but prices nevertheless have been heavy, spot at New York going below 19 cents for the first time since 1922. Announcement of record consumption in March by domestic mills had no effect on the market, partly because the gain was more than offset by a decline in exports, and partly because of the unfavorable immediate outlook for new buying both here and abroad. European textile conditions continue generally dull, and with British cotton cloth exports running behind a year ago the Federation of Master Spinners is reported to have recommended a complete stoppage of Lancashire mills using American cotton for one week beginning May 3. World visible supplies at the end of April, are estimated at 5,504,800 bales, compared with 4,668,700 bales at this time last year. With stocks of unmarketed cotton in this country considerably above last year, and exports since August 1 over 400,000 bales below last year, a substantial increase in the carryover in this country is expected.

Money and Banking

A marked change came over the money market in April. Following perceptible easing during the early part of the month, money rates after the 15th declined sharply to the lowest levels of the year. At 3 per cent for loans contracted on the Stock Exchange, call money touched the lowest points since early last year. Time loans on stock market collateral at 4 per cent for maturities up to six months reached the lowest since last summer, while bank acceptances at 3 per cent were the lowest since April a year ago. Commercial paper was likewise easier, selling in some cases as low as 4 per cent, compared with 4¼ to 4½ per cent a month ago.

Accompanying the reduction in open market rates, the Federal Reserve Bank of New York announced on April 21 a reduction in the discount rate from 4 to 3½ per cent.

Factors in Easier Money

Ordinarily the month of April is a time when Spring commercial demands have passed their peak and money rates tend to become somewhat easier pending the time for a renewal of demand for the harvesting and marketing of the crops in the late Summer and early Fall. This year the seasonal tendencies have been supplemented by a number of other factors which have served to accentuate the downward tendency.

Doubtless the most obvious of the possible factors suggesting themselves has been the liquidation in the stock market. Between the middle of February and April 21 the volume of loans to brokers, as reported by New York City banks, both for their own account and for account of correspondents, declined from $3,139,000,000 to $2,465,000,000, or nearly $675,000,000. That a considerable part of this decrease, however, may not reflect real liquidation but merely a shifting of these loans to another form is suggested by the fact that the total loans on securities of the weekly reporting banks throughout the country, which include loans to brokers, have in the same period declined only about $200,000,000. Inasmuch as the total of loans of all types shows even less of a decrease some further explanation of so marked a change in rates seems necessary.

In any fuller analysis it is necessary to revert back to the transactions of March which have a bearing on the present conditions. From March 1 to April 1, inclusive, approximately $50,000,000 of gold was imported from Canada, the effect of which,

however, was obscured partly by the usual churning up of the market around the 15th when income taxes fell due and heavy Government disbursements were made. Ordinarily these transactions wash out even in a few days, but in this case the revenue collections proved unexpectedly large and piled up the Government deposits in the Reserve banks by March 31 to $86,000,000, compared with $7,000,000 on March 17, and an average of about $50,000,000 in the two weeks prior to the tax payment period. This heavy absorption of funds from the market, together with the fact that the Reserve banks did not immediately reinvest the full proceeds of Government securities maturing from their portfolio on March 15, tended to offset the effect of the gold imports and to make money firmer at the close of the month.

With the advent of April, however, things began to move in the reverse order. With the rise in Canadian exchange to a premium, there was a return flow of approximately $15,000,000 in gold to Canada, but as this movement was relatively small the chief influential factors of the month were the gradual reduction of the Government balance at the Reserve banks from $86,000,000 on March 31 to $24,000,000 by April 21, and the gradual repurchase by the Reserve banks of Government securities in the open market up to a total $30,000,000 above the levels prevailing in the early part of March and the highest in more than a year. It was in the face of these operations that money rates broke sharply and rediscounts of the Federal Reserve Banks fell off over $100,000,000, practically all of this reduction occurring at New York where the major portion of the disbursements by the Treasury and security purchases by the Reserve banks were made. The following table reflects the effect of these operations on the statement for all Reserve banks, and indicates a decline in their total holdings of bills and securities to the lowest level for the year. That the first impetus of easing money, however, carried both rates and member bank borrowing somewhat too low was indicated by some recovery in call money rates late in the month and a considerable rise in the rediscounts reported by the Reserve banks on April 28.

(000,000 omitted)

1926	Discounts & Advances	Bills Bought in open Market	U. S. Securities Held	Total Bills & Securities	Gov. Deposits
Jan. 6....	$593	$345	$369	$1,318	$18
13....	506	327	369	1,212	17
20....	453	306	370	1,139	28
27....	449	295	365	1,119	29
Feb. 3....	488	302	350	1,149	43
10....	533	301	333	1,177	29
17....	538	302	334	1,185	40
24....	540	304	331	1,185	37
Mar. 3....	583	287	326	1,207	52
10....	502	285	360	1,159	49
17....	481	257	353	1,102	7
24....	618	252	308	1,190	69
31....	632	250	330	1,226	86
Apr. 7....	579	230	342	1,164	61
14....	577	274	377	1,242	43
21....	450	229	389	1,081	24
28....	514	199	389	1,114	16

Significance of Rate Reduction

In the lowering of the bank rate from the 4 per cent level established in January the Federal Reserve authorities recognized the changed condition of the money market as described in the foregoing, and may have been influenced also by the passing of certain elements of our business and credit situation which were a cause of some concern. At the time of the advance in the rate to 4 per cent, speculation in securities and in various land ventures was extremely active, and there were indications that these activities were drawing by indirect means upon the resources of the Federal Reserve Banks. Since that time, however, the situation in the stock market has undergone a considerable correction and there has been evidence also of a slackening of excessive speculative activities in other directions.

With seasonal commercial requirements largely filled and stock market demands reduced, there seems nothing in view other than the possibility of a considerable gold export movement to Canada to prevent the continuation of easy money conditions through the balance of the Spring and Summer.

The Bond Market

Trends in the bond market during the month of April indicate a continuing optimism both as to the immediate and more distant future of bond prices. Price movements were somewhat irregular during the earlier weeks of April, due in large measure to the reluctance of investors to make additional commitments while heavy liquidation was still going on in the stock market. But even during this period of inactivity, prices held fairly firm when it might reasonably have been expected that selling pressure would force them lower.

Under the impetus of the reduction in rediscount rate of the Federal Reserve Bank of New York, and decline in open market money rates, average bond prices were carried into new high ground for the year and many individual issues reached record levels. The Dow-Jones average for 40 listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on Thursday, April 22nd, reached 95.14, the highest point for the year, as compared with a low for the year of 93.07 and with 91.94 the level on April 22nd a year ago. This high average in 1926 is about a point under the high for 1917, which was the highest in recent years. The slight reaction in the averages occurring around the 25th of the month was due appar-

ently to the weakness of the public utility list following the failure of the New York State Legislature to pass the Mastick-Sargent Bills for the legalization of certain public utility issues for savings bank and trustee investment. There had been a steady accumulation of these issues in anticipation of favorable legislative action and the hurried liquidation by some dealers following the defeat of the measures naturally carried prices slightly lower. Since the first rush of selling, public utilities have been steady and at this writing have about reached their earlier levels.

United States Bonds at New High

United States Government bonds were fairly active during the month and moved quickly into high ground when the reduction in Federal Reserve rediscount rate for New York was announced. The long term Treasury $3\frac{3}{4}$s brought out last month at $100\frac{1}{2}$ sold on April 23rd at $101\frac{7}{16}$, a new high level. Treasury 4s and $4\frac{1}{4}$s sold on the same day at $104\frac{5}{8}$ and $108\frac{11}{16}$ respectively, also record levels for these issues. Liberty $4\frac{1}{4}$s of 1938 sold at a new high for the year of $103^{6}/_{32}$.

Municipals Active

The spirited bidding by dealers for new high grade municipal issues reflects continued confidence that the municipal market is in for a period of heavy investment demand at firm or rising prices. With the bond market generally nearing the high levels of 1917 and with the volume of desirable offerings showing little increase over the volume of last year, there is good reason to expect municipal prices to at least hold to their present levels during coming months. While the present levels seem high when compared with the average since the war, yet the yield on prime municipal securities is even now about 1 per cent more than it was twenty years ago. Even at present levels, tax exempt securities offer a rate of interest equal to and often exceeding the net income from high grade corporation bonds after income tax deductions.

While the volume of new municipal offerings during the first quarter of 1926 shows a slight increase over that of the corresponding period of 1925, it includes the $75,000,000 issue of City of New York Bonds, the largest long term municipal offering ever made in this country. New issues so far this year have not been as great in number as they were last year, nor has the average size, with the New York bonds eliminated, been so large. The most important public offering during the month was the $23,000,000 issue of City of Philadelphia 20-50-year optional $4\frac{1}{4}$ per cent bonds. These were offered to investors at 101 and interest, yielding about 4.175 per cent, and were quickly subscribed.

Foreign Issues

South America was the principal source of new foreign loans during the month. The Argentine came into American markets with a $20,000,000 6 Per Cent Sinking Fund issue maturing in 1960. These bonds were offered at 98 and interest to yield over 6.12 per cent. Republic of Uruguay also offered $30,000,000 of new 6 per cent bonds at $96\frac{1}{2}$ and interest to yield 6.25 per cent. The sale of these new issues in American markets at a yield below that prevailing on outstanding South American issues had a hardening effect upon desirable South American bonds generally. Outstanding bonds of both the Argentine and Uruguay rose substantially in the market to bring their yields to the newly established levels.

Cuban and Sugar Conditions

Press despatches about the middle of April carried reports of banking difficulties in Cuba, involving demands on some of the banks for the withdrawal of deposits. These disturbances, the accounts of which were considerably exaggerated in some of the press reports, had as their immediate cause the circulation of unfounded rumors that a moratorium was about to be declared, which found more ready acceptance because of the uneasiness and distress prevailing as a result of the low price of sugar. The situation, as is always the case in time of public uneasiness, might easily have become serious had it not been for the energetic attitude of the Cuban Government and the import of approximately $40,000,000 in currency from the United States. Thanks to prompt and effective remedial action public alarm quickly subsided, and the situation was soon tranquil once more.

For the entire period the net loss in deposits for all 25 branches of The National City Bank in Cuba was $2,936,000, of which $700,000 was a normal commercial transfer of funds to New York, and $1,380,000 represented withdrawals by local banks, leaving actual withdrawals on the part of the public only $856,000.

Insofar as the fundamental banking situation in Cuba is concerned there has been at no time cause for nervousness. Sugar has been selling below cost of production for more than a year but as loans have been made on the basis of low valuations the banking position has not been affected by the continuation of low prices. The situation is entirely different from that of 1920, 1921, and 1922 when a heavy decline in raw sugar from over 20 cents to $3\frac{1}{2}$ cents wiped out the security behind loans and forced many banks throughout the island to suspend payments.

Nor does there appear any basis for the fear that the sugar industry is facing a crisis. Difficult though the situation is, it is unlikely

to become more acute. In this connection it is interesting to note that according to Willett & Gray, recognized sugar statisticians, the average price of Cuban raw sugar has not been below two and one-half cents per pound "cost and freight" during any year of the last twelve years prior to the current crop; in but three years of such twelve year period has such average price been below three cents; and in seven years of such period such average price has been in excess of four cents. According to the same statisticians, the average "cost and freight" price for the ten years prior to the current crop has been 5.11 cents, and for the twenty year period prior to the current crop has been 3.92 cents per lb.

As we go to press a crop curtailment law which has been passed by both houses of the Cuban legislature is awaiting the President's signature.

War Debts

Events of paramount interest in furthering the restoration of sound economic conditions throughout the world has been the progress made during the past month in settling the debts owed by various European Governments to the United States. On April 30 an agreement between the American Debt Commission and Ambassador Berenger for the funding of the French debt was announced, and during the month Congress ratified the agreements concluded between representatives of the United States and Italy, Belgium, Czecho-Slovakia, Esthonia, Rumania, and Latvia for the funding of the debts of those Governments to this country. These are gratifying results, and for those nations with whom the settlements have been ratified, clear away a subject of controversy and enable them to plan definitely for the management of their finances.

In the case of the French debt, the compact to be finally binding must be ratified both by the United States Congress and the French Parliament. According to press reports, $6,847,-674,104 is to be paid over a period of 62 years, or approximately $627,000,000 more than was called for by the terms of the Caillaux offer made last October. Payments are to be made in installments of $30,000,000 for the first and second years, $32,500,000 for the third and fourth years, and $35,000,000 for the fifth year, thereafter rising to a maximum of $125,000,000 in the seventeenth year, at which level they continue until the final year when there is a payment of $117,674,104.

During the first five years no interest is charged, and after that the rate averages about 1.58 per cent. Reckoning money as worth 4¼ per cent, the present day value of the aggregate payments to be made over 62 years is slightly over 50 per cent of the principal of the debt funded, compared with 26 per cent in the Italian agreement and 78 per cent in the British agreement.

Certain provisions are also to be included allowing France an optional period of grace on payments falling due within the first five years.

Under all these settlements large concessions have been made from the face of the debts, the principle being recognized that agreements should be on the basis of the debtor's capacity to pay, taking account of practical considerations, as business men would deal with a debtor under like circumstances. All of the adjustments are with a view of affording industry and trade opportunity to function as normally as possible, for upon this depends the successful operation of all plans and the hope of general prosperity for debtor and creditor alike.

Need for Debt Settlement

On the general question of the war debts, there has been a vast amount of controversy. It is perfectly hopeless, however, to think that in regard to relative interests in the war or relative obligations in sharing the costs the people of the associated countries ever will think the same. The discussion upon that phase of the subject might go on with nothing but mutual irritation until the last survivor of this generation had passed away, and be renewed by the descendants; furthermore, it is not the practical phase.

The matter of real importance now is not how the war originated, who was most vitally threatened or who ought to pay the costs; all the world is now interested in regaining prosperity. The question of whether the debts are to be paid or cancelled is not so important to either debtors or creditors as that the masses of the people shall have employment, with pay sufficient to enable them to buy and consume each other's products, and that to this end monetary systems and exchanges shall be stabilized and trade given opportunity to move freely. This requires that governmental finances shall be put in order, that national credit shall be re-established, that the liabilities of nations shall be definitely determined and covered by revenues, that taxation shall be neither so heavy upon business as to paralyze development nor so heavy upon the masses as to unduly restrict consumption and trade.

The world needs a restoration of order in its affairs. The people of the United States are more interested in current trade than in getting the last possible dollar in debt settlements, which of necessity arrange for payments a half century hence. Secretary Mellon has expressed this opinion with particular reference to exports of farm products. Unquestionably prosperity in Europe would in-

crease the demand for our meat products, which afford the most practical means of disposing of our surplus corn, and the south is facing the need of a larger outlet for cotton. In the five fiscal years ended June 30, 1914, our yearly average export of cotton was 8,532,000 bales, and for the five years ended June 30, 1925, 6,638,000 bales, while under normal conditions there should have been a considerable increase; for not only does an increased population require a corresponding increase in supply, but with a normal rise in the standard of living there is an increased per capita demand. The cotton market has been declining in recent months because of accumulating stocks and diminishing exports. The latter signify unsatisfactory trade conditions over the world.

The Example of Reparations

The deadlock over reparations, which lasted from 1919 to 1924, teaches a most pertinent lesson upon the debt settlements. It was not until the allied governments quit figuring on the losses which had to be reimbursed, quit arguing for the justice of their claims, and agreed to the appointment of an independent commission to find out how much it was practical for Germany to pay, that any real progress toward the solution of the reparations problem was made.

The Dawes Commission laid down certain principles. It said that not only was it impossible for the reparations to be paid in gold, but that the allies, with such other nations as would cooperate, must lend Germany sufficient gold to serve as the foundation of a stable monetary system, in order that industry might have a firm basis of operations, and be able to compete in the markets of the world. They said that reparations could be paid only in the products of the country, and by a surplus of exports over imports after allowing for home consumption on a scale sufficient to maintain the health and energies of the German population; also that there must be some accumulation of new capital, to enable Germany to be maintained on a competitive basis. In short, the conditions required by the commission, instead of being what might be expected for a conquered country at the hands of enemies, read very much like a prescription for prosperity. The explanation was that if it was planned to collect reparations over a long period the productive capacity of the country must be maintained, not weakened.

Finally, they made it clear to the creditors that Germany would discharge her obligations by collecting the required sums within Germany, and that the responsibility of converting them into foreign currencies belonged to the creditors. They must take German goods or bills of exchange drawn against sales of German goods abroad. If German goods did not create foreign balances reparation payments would have to cease.

The Position of a Creditor Nation

Senator Smoot in his speech on the debt agreement with Italy gave recognition to these necessary conditions, and in view of the economic conditions and policies of the United States frankly did not see any prospect of actually collecting the debts for a long time. He is not favorably disposed toward adverse trade balances, and does not think the American people want them.

Senator Smoot says that this country has reached the position that Great Britain was in for many years before the war, to-wit: under the necessity of continuing to be a creditor nation, perhaps on an increasing scale. We will be obliged, he says, to refund the debts, adding interest to principal, and reconciling ourselves to having constantly increasing assets and interests abroad.

In one respect the situations are different. Great Britain has had no policy opposed to the admission of foreign products; her creditor position is due to private investments abroad, and the investors have not wished to bring the investments home, or even the interest upon them. On the other hand, the debts running to the United States Government are accommodation debts, which the Government desires to collect, but this desire runs counter to the policy of the country upon the subject of commodity importations. If we are not willing to even receive imports enough to pay for our exports, what show is there for collecting the debts?

It is obvious that what is called a favorable trade balance, i.e.: a balance of exports over imports, is an anomaly for a country which is in a creditor position on all other accounts.

The Collection from Great Britain

The question may be asked how it is that in apparent contradiction of Senator Smoot's proposition, we actually are making collections of Great Britain? The answer is that we have been lending more abroad than we have been receiving from Great Britain. We have not been reducing the total of foreign indebtedness to us. In the general criss-cross we may have an excess of receipts in one-quarter and of disbursements in another, like an individual trader. Moreover, these counter-balancing payments are mutually related and dependent. Payments in some directions may supply the very means by which receipts from other quarters are increased, and enforced collections in certain quarters may curtail income from other quarters. The world's settlement sheet is bound to balance at last.

Individual Investments

Individual investments cannot be spoken of in the general terms applied to the grouped investments of a nation. Senator Smoot has explained that he had no intention of saying that foreign obligations or investments were not good in the ordinary meaning, but simply that in the large view they could not be brought home because the contrary flow of goods would not be available to create the necessary means of remittance. It was not a question of the solvency of foreign debtors, but of finding the means of conveyance. British investors, however, never experienced trouble in collecting returns or withdrawing capital at will from foreign field, if the investments were intrinsically good, one reason being that good investments were constantly in demand in Great Britain and the aggregate of foreign holdings constantly increasing. Moreover, this constant market for foreign securities in Great Britain always has been an important factor in obtaining business for British industries.

A Summary of Trade and Debt Conditions

If we are going to collect the debts owing to the Government, we must either reduce our exports, increase our imports or increase our private investments abroad.

If we are going to stop making private investments abroad, we must either reduce our exports or increase our imports, and also give up the idea of increasing our collections on the debts to the Government.

And, finally, if we want to increase our commodity exports we must expect to increase our commodity imports, unless we are satisfied to lend capital indefinitely to settle the balance.

The State of Europe

Although there is good reason to believe that on the whole Europe makes some progress in recovery each year, the process is slow and the year from the Spring of 1925 to the Spring of 1926 has been generally disappointing. With three or four exceptions, European countries have not made the advance hoped for. This does not in all cases mean that they have gone back since a year ago, for some of the troubles belong to stages of recovery which they have just reached, and in some cases it seems to have been necessary for conditions to become worse before they could be made better. However, it must be said that a survey of the state of Europe at the moment indicates that conditions have not yet reached a satisfactory stage.

The crops were exceptionally good last year, or social and business conditions would be worse than they are, and the outlook at this time is for another good season. Unemployment, however, though improved in places as evidenced by the recent figures from England, continues a pressing problem, and industrial and commercial conditions generally are unsatisfactory, except in France, where currency depreciation has given a deceptive stimulus to trade, with demoralizing reactions in neighboring countries.

The French Situation

At the end of April, 1925, the exchange value of the French franc was approximately 19 to the dollar and at the end of April, 1926, it was approximately 30 to the dollar, and, of course, the comparison with all gold currencies, or currencies which were not depreciating in relation to gold, has been about the same. Foreign traders could buy textiles or other competitive goods in France cheaper than in any other country, by reason of this abnormal state of French exchange, and at a time when there is not business enough to go around such a situation disturbs prices much beyond the volume of sales which the low-exchange country actually makes. In this case it has had an effect upon competitive business generally in Great Britain, Belgium, Germany, Switzerland, Austria, and other countries.

How it has happened that a people so economically careful and sound as the French in the management of their private financial affairs should get their public financial affairs into such an unfortunate state is too long a story for this article. It is enough to say that the enormous expenditures of the war, the equally enormous expenditures of reconstruction, the expectation of impossible reparations from Germany, and finally the inevitable incapacity of a parliamentary body composed of numerous political blocs, have been the main factors.

From April, 1925, to April, 1926, seven ministers of finance grappled with the problem, and six retired in order as their proposals failed to obtain parliamentary approval. All of the political leaders were saying that there should be no more inflation, that revenues must be increased to cover expenses, but they could not agree upon the taxes to be levied, and meanwhile inflation went on. Finally, however, an important group modified its position to the extent of abstaining from voting, and measures were carried which it is estimated will supply revenues enough to cover the deficit. The French Finance Minister, M. Peret, has protested against any suggestion that the budget was only balanced on paper and has stated emphatically that the estimates are conservative.

It is evident that the recent revenue legislation represents a determined effort to put the Government finances on a sound basis and undoubtedly accomplishes a very substantial improvement in the situation. While the budget was passed by the abstention of a large

group from voting, this abstention expressed a deliberate purpose on the part of this group to waive its objections to the plan of taxation proposed. Opposition had not been because of opposition to increase revenues or approval to increase borrowing or inflation, but to the method of taxation and was abandoned finally on account of the fiscal emergency. There is plenty of confidence in the ability of France to meet her obligations, and in the desire of the country to do so. The intentions of the Assembly in this respect are not doubted, but experience has shown that agitation upon methods of taxation and kindred subjects is disturbing to the exchange and tends to make more difficult the handling of the large body of short term indebtedness. These are the sensitive points of the situation.

Return to the Gold Standard

While prices have been rising in France by the depreciation of the currency, they have been falling in other countries, in part as the result of appreciating currencies, and falling prices, of course, have a depressing effect upon trade. Great Britain resumed gold payments in the latter part of April last year, accompanied by Holland. To the extent that prices in England had been above the gold level it was evident that they would have to come down unless improvement in world trade increased the demand for goods enough to create a counterbalancing influence. World influences, however, have been unfavorable to rising prices. British tables indicate a decline of about 10 per cent in the past year.

Following the resumption of gold payments the Bank of England received considerable gold and reduced its discount rate from 5 to 4½ and then 4 per cent, but last fall a drain began which caused it to restore the rate to 5 per cent. The net loss of gold since resumption has been about $50,000,000. The Bank of the Netherlands has had a net loss of $30,000,000 from gold reserves and considerably reduced its holdings of foreign exchange. It is in a very strong position, however, and shares with the New York Reserve Bank and the Swiss National Bank in having the lowest discount rate in the world today, 3½ per cent.

The movement for gold resumption in Europe had to contend last year with an extraordinary demand for gold from Asia. India alone took about $200,000,000, or approximately one-half of the total mine production. This was due to a combination of the largest total exports on record and a decline of commodity imports.

In Norway and Denmark the governments planned to stabilize their respective currencies, but indicated that gradually over a number of years they would be raised to their prewar parity with the dollar and pound sterling. The prospect that anything is going to rise is very likely to induce purchases, and in this case speculators proceeded to buy these exchanges in such quantities that market rates far outran government calculations, and produced a fall of internal prices that was very disturbing. The values of exportable products suffered a severe reduction in the domestic currencies, and it can be imagined what effect a decline of approximately 33 per cent in the prices of Danish agricultural products would have on the business in that country.

Belgium pursued throughout the year its plans for settling its foreign debt and stabilizing its currency, but had to contend with the influence of the declining currency of France, with which it has close relations. The average rate of the French franc in dollars in April 1925, was 19.26 to 1 and of the Belgian franc 19.8 to 1. At the end of April, 1926, the French exchange was 30 to 1 and the Belgian exchange 27 to 1, but as late as the middle of March the Belgian rate was 22 to 1.

One year ago Germany was just getting well started with the Dawes plan, the new central bank and the gold standard currency. A new era was beginning, after a terrible period of monetary disorder, foreign military occupation, and a general state of uncertainty and paralysis. Foreign capital was beginning to flow into the country and the outlook was decidedly more hopeful. The conditions, however, were too serious for general prosperity to come simply by a new set-up of the financial organization. That was a necessary condition, but not of itself sufficient to make good the losses of the war and of deflation, or restore Germany's former trade relations. By July, trade was slackening and by the end of the year more than 2,000,000 workers were unemployed, the most serious situation in this respect since the war. The number of business failures has been large, but it should be said in this connection that there has been a great multiplication of business concerns in Germany during the inflation period, and that a reduction of the number will make for a more economical organization. Germany is passing through a period of severe adjustment. Nevertheless, the revenues of the government have been in excess of requirements, and an important reduction of tax levies has been made for the fiscal year, which began April 1, reparation payments are being made at the schedule rate, and interest rates, on both commercial and investment paper are declining. It is true that monetary ease and declining interest rates result from business depression, but there are evidences that capital is accumulating.

Since and including December last, Germany has had a favorable balance in foreign trade, the goal which it has been striving to reach,

but here again trade depression is a factor, having caused a decline in imports of raw materials.

Improvement in Russia would help Germany and all Europe, but the purchasing power of Russia revives very slowly if at all. The exports of agricultural products from the 1925 crop have been of little consequence. Russia's wants would put European industry on its feet if the country had anything to buy with, but unfortunately it has neither products nor credit. The strain for credit is so great that the chervonetz currency, the new monetary system based upon gold and bills of exchange after the orthodox system in use elsewhere, and planned to be independent of government credit, is reported to be suffering depreciation. The manner in which industry in every country of Europe is suffering by the prostration of Russia is a striking illustration of the interdependence of the modern industrial organization.

Poland has been obliged in the past year to allow its currency to slip from the newly established gold basis, and it has suffered a depreciation of 40 to 50 per cent. The industrial situation is bad, with 80,000 registered unemployed in the textile district of Lodz and 75,000 in the mining district of Upper Silesia. The mining population of Poland is reported as having declined in the last two years from 224,000 to 108,000, chiefly as the result of the division of the Upper Silesia coal field under the boundary decision. The market for the mines transferred to Poland, had been largely in Germany, and has been lost to them. It is said that in some cases the mine shafts are in one country and the face of the coal vein in the other country, and that customs officers are stationed under ground. Much of the Polish coal production was marketed in Russia before the war.

The Fundamental Reason for Depression

The fundamental reason for depression is apparent everywhere in Europe. It is in the disorganization of trade, in part by the interference of governments and in part by the maladjustment of price relations and the unyielding attitude of producers in different lines, who fail to understand that modern industry depends upon an exchange of products upon a fair basis.

The establishment of new nations, and the resulting multiplication of boundary lines and customs houses has been one important factor. Each of the new nations has wanted to create an independent industrial system, making itself economically independent so far as possible. That is no more than nations always have wanted to do, but the more nations there are the less freedom there is in the exchange of economic services and for the organization of industry on the most effective basis. Secretary Mellon stated this proposition so well in his recent speech at Philadelphia that a paragraph from it is given herewith:

> Modern trade consists not in having each community sufficient for its own needs, but in specialization of production and in consumption throughout a large market. In the United States we may grow wheat in the Dakotas, corn in Iowa and fruit in Florida. We may make steel at Pittsburgh, automobiles at Detroit and shoes in St. Louis. Through our efficient transportation system we distribute articles to a market of 110,000,000 people of great consuming capacity, speaking the same language and separated by not a single customs barrier. In this market seems to me to lie the great industrial power of America. Certainly nowhere else in the world does such a favorable condition to industrial strength now exist. We are enabled to manufacture cheaply because we manufacture in quantity and in the territories where conditions of labor and raw material are most favorable, and we can, and do, pay the highest real wages in the history of labor.

About the same time that Secretary Mellon was uttering the foregoing, Mr. Walter Leaf, Chairman of the Board of the Westminster Bank and President of the International Chamber of Commerce, was making an address to delegates of the latter organization in Paris. Reviewing the state of trade, he said:

> Everywhere, with hardly an exception, there are the same complaints of the difficulty of finding markets for manufactures. The capacity for production is there, and is generally much larger than in pre-war times; but the products are stagnating because they are refused, or at least hampered by foreign tariffs and trade barriers. Hence unemployment, stagnation of industry, and a lamentable waste of potential human energy. The whole standard of living is lowered by the artificial restrictions on human efficacy. A European Trade League would have open markets on at least the same scale as those of the United States, and would thus be able to compete in production on equal terms with that vast area of free trade intercourse. National jealousies force us here to employ in suicidal trade struggles the efforts which should be concentrated on the general advancement of human well-being. It is for the International Chamber to do its best to educate the world to this wider outlook.

Aside from the danger of the interruption of trade by war there are no better reasons why nations should be economically independent than why individuals should be so. Individuals find it advantageous to trade, and the interests of a nation are simply the aggregated interests of its people.

The British Coal Situation

The United States lately has come through a strike in the coal industry, affecting only the anthracite production, and therefore affecting general industry and trade but slightly; nevertheless, from this and previous experiences we are able to have some idea of the gravity of the situation confronting Great Britain, where a complete cessation of coal mining is threatened on May 1. The mines, including those of Scotland, are all unionized, and no attempt will be made to produce coal until a settlement is affected. Furthermore, the international union, which includes all the miners' or-

ganizations of western Europe, has pledged its support, and will stop work if coal is shipped from the continent to Great Britain.

It is needless to describe the dependence of modern life, and especially life in the great cities, upon coal, or to point out that the great body of the people put in jeopardy are of the same kind and circumstances as the miners themselves. The latter do not mean deliberate harm to all their fellows, but say they will adhere to a certain position no matter what happens.

The situation is complicated, but the most important fact is that the coal industry is in difficulties in all countries, for certain obvious reasons; because the chief coal consuming industries are running light, because coal-producing capacity was increased during the war, and because there has been an increased utilization of other sources of power, notably oil and falling water.

Prior to the war, from the beginning of the use of steam power, the coal production of Great Britain had increased steadily, reaching its maximum in 1913 at 287,000,000 tons. The growth immediately preceding the war is indicative of the prosperity of Great Britain at that time; in the years 1899-03, actual sales as distinguished from coal raised averaged 224-000,000 tons, while in 1909-13 they averaged 270,000,000 tons. The industry was constantly under the necessity of attracting more labor, and wages and earnings also reached their maximum in that year. Exports of coal have been a very important factor in the foreign trade of the country, for not only did they amount to one-tenth of the value of all exports but inasmuch as the outgoing merchandise shipments were of less bulk than the incoming shipments of grain and other raw materials, the outgoing coal helped to utilize the cargo space, thus reducing freight charges to the advantage of all British trade.

The exports of British coal in recent years as compared with 1913, by countries, is shown by the following table:

COAL EXPORTS OF GREAT BRITAIN

	1913 Tons	1923 Tons	1924 Tons	1925 Tons
North Europe	19,943,573	8,424,599	9,482,457	7,845,128
Germany	8,952,328	14,806,232	6,824,071	4,164,731
France	12,775,909	18,826,352	14,534,844	10,234,600
South and Central Europe	17,058,249	23,946,372	16,594,003	14,039,754
South America	6,892,905	4,036,688	4,401,591	4,214,817
British Possessions and Egypt	4,985,205	2,929,534	4,187,759	5,997,986
Other Countries	2,791,949	6,479,901	5,626,548	4,320,102
Total	73,400,118	79,449,678	61,651,273	50,817,118

Reparations coal is something of a factor in France and Italy, but France has increased her own production by 3,000,000 tons. Russia turns up here again as a factor in demoralization, by reason of her diminished purchases. South America has been buying more of the United States.

In summing up its account of the industry's troubles the late Coal Commission in its report said:

(1) Compared with the pre-war period, the home demand for coal is stationary. Economies in the methods of burning coal, combined with depression in the iron and steel and shipbuilding trades, have counter-balanced the effects of growth of population and of industrial progress.

(2) The foreign demand was 7½ per cent less in 1924 than in 1909-13. In 1925 it was 22 per cent less. There has been in 1925 a serious depression in the industry in almost all the coal-producing countries of Europe.

(3) A great new coalfield has been developed in South Yorkshire and Nottinghamshire. From this field about 11,000,000 tons a year are now being produced, and before long the production will be 20,000,000 tons.

(4) With a stationary demand at home and a reduced demand abroad, the number of men employed in the coal mines of Great Britain has increased from an average of 1,048,000 in 1909-13 to 1,156,000 in 1925, or by more than 10 per cent.

(5) In 1923 the occupation of the Ruhr disorganized the working of a coalfield of which the output in normal times is equal to more than a third of that of Great Britain. The consequence was that pits were opened or kept opened here; profits were high; the wage agreement between the employers and the miners was revised, 11 per cent being added to the minimum rates of pay. By the summer of 1924 normal conditions had been restored in the Ruhr. In the first half of 1925 the coal industry of Great Britain suffered the full force of the depression which had previously been impending. Prices collapsed, and the industry, taken as a whole, ceased to be remunerative.

The Subsidy

On July 1, 1925, the coal operators gave the thirty days' notice that they would terminate the agreement entered into in 1923, because they were losing money under it. When August 1 arrived a new agreement had not been reached, and a strike was about to go into effect when the Prime Minister, Mr. Baldwin, called the leaders of both sides together and agreed that the Government Treasury would make good to the operators all losses which they would sustain in continuing operations pending an investigation of the coal situation by a public commission and the consideration of a report, allowing to May 1, 1926, for an agreement.

The results of operations under the subsidy in the three months ended with December 31, 1925, are stated in part by the Commission as follows:

With the subsidy there is shown a profit of just over 1s. 6d. (36 cents) a ton, taking the country as a whole. Without the subsidy there is shown a loss of just under 1s. 6d. (36 cents) a ton; one of the important wage-agreement districts—the Eastern Division—made a small profit; the others made losses ranging up to about 3s. (72 cents) a ton in Northumberland, Durham and South Wales.

A special return for the same quarter, obtained from the joint accountants, shows that 73 per cent of the output was raised at a loss, apart from the subsidy. More than 60 per cent of the coal was raised at a loss of more than 1s. (24 cents) a ton. In particular districts the position was far worse. The proportion of coal raised at a loss of 1s. (24 cents) and more per ton was in South Wales and Scotland more than 80 per cent; in Durham 90 per cent; in Northumberland 99 per cent.

The cost of the subsidy to the Treasury amounted to about 72 cents per ton for all the coal mines, and aggregated $100,000,000, which compared with an original estimate of $50,000,000.

The Coal Commission's Report

The Coal Commission's report was made public on March 10. It rejected the arguments of the miners for nationalization of the mines, on the ground that the policy probably would not produce satisfactory results. Indeed, it expressed the opinion that the coal industry was as illy-adapted to nationalization as any industry, excepting possibly agriculture. It did, however, recommend that the Government buy out the owners of the coal deposits on the basis of the capitalized value of the royalties, thus eliminating them from controversy, and possibly facilitating consolidations among operating companies by which costs might be reduced. It rejected a proposal by the operators that the working day, which was reduced in 1919 to seven hours, be increased, but recommended that the miners accept a readjustment of wages which would amount perhaps to about the increases gained in 1923. This readjustment, it should be said, would affect chiefly the more highly paid men, it not being intended that wages of the unskilled, more poorly paid workers should be reduced below certain figures known as the "subsistence wage." The Commission supports this recommendation with a calculation which apparently shows that while the purchasing power of the average mine wage had not held its own since 1914, this is not true if comparison is made with the five years 1909-13, and, moreover, that the percentage of less skilled and less highly paid workmen has increased since 1914, which makes a difference in computing averages.

Rates of Pay

The Commission also compiled a table of wages in other industries, which seems to show that while miners' wages have not increased as much as those of workers in certain trades serving mainly the home public, the miners are better off than many of those in the great industries largely dependent on export business. As regards actual pay unskilled miners are not so well paid as corresponding workers in the transport and building industries, but better paid than machinists and shipbuilders. Among the skilled workers the miners are in a relatively better position.

Referring to these comparisons, the Commission says:

> It is not our place to pronounce judgments as to these other industries, and we have not the material for any considered judgment. But the differences in the present remuneration of labor of comparable degrees of skill, responsibility and risk in different industries are notable, and suggest the need for some reference to general standards when the wages of any particular class—be they coalminers or bricklayers or railway servants or compositors or municipal laborers—are under consideration. Otherwise there is a real danger that wages in certain industries which are ultimately governed by economic conditions and the competition of other countries may be unduly depressed in relation to wages in other industries which can be fixed by statistical calculations of the cost of living. The burdens left by the war may thus be unfairly distributed.

In other words, it is not possible for state authorities to determine the wages or compensation of all the groups in industry by statistical calculations, and assure everybody against loss by unsettled and inharmonious economic conditions. There are inevitable losses from war and the disorganization of industry and nobody should expect to escape them entirely at the expense of others.

The Commission in this discussion of wages does not carry the idea that miners' wages are higher than they should be under such prosperous conditions as existed in 1913 or even 1923, but is by way of showing that some concessions could be offered by the miners rather than have a general suspension of the industry. The Commission tells what will happen if the industry does not adjust itself to present conditions. It says:

> This, then, is the position that will have to be faced next May if proceeds and costs remain near their present levels and if the subsidy stops, as, in our view, it should stop. Such a position could not long continue. A large proportion of collieries would be compelled to close; the best collieries would remain at work, and would get higher prices for their coal. Many miners, to be numbered probably by hundreds of thousands rather than by tens of thousands, would be thrown out of work. The rise of coal prices would intensify the existing depression in the iron and steel trades and shipbuilding, and would affect other industries seriously. Export markets, both for coal and for manufactures, would be lost, causing further depression in shipping and shipbuilding, and reacting again upon coal. Ultimately a balance might be reached, with the mining industry reduced by a large percentage of its present numbers, a raised cost of living, and an intolerable burden of unemployment.
>
> The gap between proceeds and costs in mining can in the near future be filled only in two ways; by a sudden contraction of the industry to much smaller dimensions and a rise of prices, or by an immediate lowering of cost of production.

Declining Per Capita Output

The report expresses the opinion that there is no basis for the opinion sometimes repeated that the miners have deliberately practiced "ca-canny," or the restriction of production; but shows that from various causes, mainly the increasing depth of the mines and shortening of the working day, the production of coal per head of all persons engaged in mining has been declining over the last fifty years. In the five years 1879-1883 it averaged 319 tons per head; ten years later, in 1889-1893, it was 282 tons; 20 years later still, in 1909-1913, just before the war, it was 257 tons; for 1924 it was 220 tons; and for 1925, 217 tons.

With an output in 1925 about 15 per cent less than in 1913 the number of working

miners was about 16 per cent greater, or as the Commission puts it, "7 men are now endeavoring to live in mining off the same total output as 6 had before the war and are claiming to live as well."

Accepting the Commission's opinion that deliberate restriction is not a factor worth mentioning, these figures of declining output still have great significance. There is a tendency for this to occur in all the extractive industries. The resources of nature are drawn upon at constantly increasing cost, except as by research, invention, improved methods and machinery this tendency is overcome. This means that capital is a constantly increasing necessity in supplying human wants. What would be the fate of an increasing population with fuel, food, clothing, timber, and other necessaries constantly becoming dearer in terms of human effort?

Coal and Other Industries

In view of this tendency, it must appear to thoughtful persons that the maintenance of the capital supply, and of a system of ownership and management which is interested in reducing costs, is a matter of concern to the general welfare.

To sum up the case as the Coal Commission has presented it, the depression in the coal industry is due to the worldwide disorganization of trade from which most of the industries have been suffering, whether in wage reductions, or uncertain conditions of employment so far as wage-earners are concerned, and in losses or diminished profits for proprietors. The entire agricultural class, comprising one-half or more of the population of the world, has been suffering from this disorganization. It is a direct result of the war, and no section of society can claim that it shall bear no part of those costs. The coal industry as a whole is not earning a good living, but the question is whether the people outside of the coal industry, most of whom have troubles of their own, should be compelled to relieve the coal miners of their share of the results of the common calamity? There is only one fair answer: everybody should cooperate to restore normal conditions, in which all the industries may be prosperous again. The coal industry is suffering because the other industries are suffering, and will become prosperous when they do.

It would be a mistake to think that the miners are more selfish and indifferent to the general welfare than other people. They simply do not see the relations between the industries, but in this they are a little different from other classes, including the statesmen. A strike, however, instead of getting them anywhere, will simply increase the general confusion and inflict losses that will delay the general recovery. The way back to normal conditions is by mutual concessions and sacrifices, not by adding to the difficulties.

The argument of the miners is that a reduction of wages in England will lead to reductions in competing countries, and there is support for this view in the fact that operators and miners on the continent have complained that the subsidy in England was enabling British coal to undersell them, and have asked for subsidies from their own governments. This illustrates the folly of the subsidy policy, but a general reduction of coal prices would be one of the most potent means of reviving the other industries. At present the demand for coal does not require production from the high cost mines, but there is insistence that the wage settlement shall be general and allow all districts to operate. This policy in all the industries prevents the readjustments which are necessary to restore normal conditions.

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